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IN THE

Supreme Court of the United States

No. 72-

A-T-O, INC. (formerly "AUTOMATIC" SPRINKLER CORPORATION OF AMERICA), an Ohio Corporation, ELECTRONIC CONCEPTS, INC., A Virginia Corporation, JOHN E. ZENTMEYER, JR., and GUS K. TEBELL, JR.,
Petitioners,

v.

SPERRY RAND CORPORATION,
A New York Corporation,
Respondent.

PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FOURTH CIRCUIT

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IN THE

Supreme Court of the United States

No. 71-1699

A-T-O, INC., ET AL.,
Petitioners,

v.

SPERRY RAND CORPORATION,
Respondent.

PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FOURTH CIRCUIT

Petitioners respectfully pray that a writ of certiorari issue to review the judgment of the United States Court of Appeals for the Fourth Circuit affirming in part and vacating and remanding in part a judgment of the United States District Court for the Eastern District of Virginia, at Richmond.

OPINIONS BELOW

The opinion of the District Court is reported at 325 F. Supp. 1209, (E.D. Va. 1970), *sub nom. Sperry Rand Corporation* v. *Electronic Concepts, Inc., et al.*, and appears in Appendix A, *infra*, A-1, together with the judgment of that Court, A-20. The opinion of the Court of Appeals for the Fourth Circuit, 447 F. 2d 1387 (1971) appears in Appendix B, *infra*, B-1, together with that

Court's judgment thereon, B-14. The opinion and order of the Court of Appeals denying cross motions for rehearing is printed in Appendix C, *infra*, C-1. A petition for certiorari was filed in this Court by respondent on February 4, 1972, and was denied on March 27, 1972 (No. 71-990).

JURISDICTION

The judgment of the United States Court of Appeals for the Fourth Circuit was entered on September 7, 1971. Cross motions for rehearing were denied by that Court on April 11, 1972. The jurisdiction of this Court is invoked under 28 U.S.C. § 1254(1).

QUESTIONS PRESENTED

1. Whether a commercially sold and unpatented radar antenna and uncopyrighted radar manual are in the public domain, and if so, whether the assessing of penalties under state unfair competition law against petitioners for an unauthorized copying is in conflict with the free copy rule stated by this Court in *Sears, Roebuck & Co.* v. *Stiffel Co.*, 376 U.S. 225 and *Compco Corp.* v. *Day-Brite Lighting, Inc.*, 376 U.S. 234?

2. Whether a radar contractor to the Coast Guard, who has bid without reservation on, and has been paid by the United States for, the design of a radar antenna and writing of a radar manual, retains such an interest therein as to have standing to recover damages for an unauthorized copying thereof by a competitor for the purpose of bidding on a government reprocurement of the same equipment?

3. Whether there has been such a departure from the usual course of judicial proceedings in the allowance of compensatory and punitive damages as to call for an exercise of this Court's power of supervision?

STATEMENT OF THE CASE

Respondent, Sperry Rand Corporation ("Sperry"), a Delaware corporation, sued two former Virginia employees, Zentmeyer and Tebell, and their local employer, Electronic Concepts, Inc. ("ECI") for $1,000,000, asserting misappropriation of Sperry's trade secrets in radar, loran, and other electronic equipments. By the time of trial, the only remaining claims were (1) an unauthorized copying and misuse of a radar antenna design and a radar manual, and (2) an unlawful procurement and use of the price Sperry was to bid on a 1966 Coast Guard radar contract. Federal jurisdiction was invoked under 28 U.S.C. § 1332 on the basis of the amount claimed and the diversity of citizenship of the parties.

The trial court found that the petitioner Zentmeyer was a junior engineer at Sperry assigned to the designing of slotted array antennas, a subject on which he had no prior experience (A-4). His employment contract restrained any unauthorized disclosure of Sperry information "not known to the general public or recognized as standard practice" (B-3, 4).

In 1963 Sperry won a Coast Guard contract to design and manufacture a radar (A-9) and prepare a technical manual for it (Def. Exh.-146, I(5)). Zentmeyer designed the antenna. The Court found that this design involved "a great investment of time, effort and money", that this was "embodied in a manufacturing drawing . . . of great monetary value" (A-9) and "was the culmination of Zentmeyer's efforts" (A-7), and, although this "may have been an accumulation to some extent of information available and in use in the trade" and was unpatented, patentability was not a requirement of a trade secret (A-18).

Zentmeyer himself had believed his design contained a novel discovery improving the usual industry formulas and, as the district court found "in 1963 he filed an in-

vention description sheet with the Sperry Patent Department." (A-7). There is no trial court finding as to Sperry's reply. The Circuit Court opinion described the result: "The patent department concluded, however, that because of disclosures in the prior art, the newly developed antenna array was not patentable." (B-4). This was taken from Def. Exh. 63, p. 12 where the actual language of Sperry to Zentmeyer was

> We have particular reference to patent 2,730,717 which shows substantially the same antenna configuration. The invention appears to be taught completely and, in addition . . .

The patent so referred to had been granted in 1952 to Byers and Katchky who are unrelated to any parties in the action.

Without regard to any question of possible infringement, Sperry from 1963 to 1966 manufactured and sold radars with the Zentmeyer antenna to commercial buyers under the name "Mark VI" and to the Coast Guard under the designation "AN/SPS-53" (A-6). Operators manuals prepared under the specifications of the Coast Guard contract were delivered with the sets to both classes of purchasers. The manuals were not copyrighted. The trial court held that the manuals contained information not generally available to the public (A-12).

Zentmeyer left Sperry's employ on March 31, 1964 to become president of the recently formed ECI, and took with him at that time two cartons of professional papers "cleared by [his] supervisor". The court held that the supervisor however "never intended to acquiesce to the removal of certain of the data." (A-10, 11). Among the documents taken was the preliminary drawing of Zentmeyer's 1963 antenna design.

For three years thereafter Sperry was the sole supplier of AN/SPS-53 radars to the government. In 1966

the Coast Guard issued to the trade Invitations to Bid on a reprocurement of AN/SPS-53 radars, and put on public display for examination by potential bidders, copies of the Sperry set and manual (A-13). ECI, a loran manufacturer, which had never previously made a radar (A-14), decided to bid. At Zentmeyer's request, a Sperry employee, the petitioner Tebell, gave him a copy of the manual, which was then used by ECI in preparing its bid. The trial court found that ECI had thereby intentionally avoided using the public copy or signing the visitors' register, and thus had been able to successfully conceal from Sperry its intention to compete for the Coast Guard business,

> As a consequence thereof, Sperry was put in a position of not bidding lower than they ultimately did which the Court finds they would have done had they known that ECI was going to bid . . . (A-13).

In September 1966 ECI was one of three bidders on the fourteen items of a $900,000 Coast Guard procurement to manufacture 90 copies of the AN/SPS-53 and related equipment. On the items selected by the Coast Guard contracting officer, the bid of ECI was $6,420 under that of Sperry and $33,626 below the third bidder (Def. Exh. 89). Sperry appealed to the Comptroller General to prevent an award being made to ECI. This appeal was dismissed (Op. Comp. Gen., B-160153, Jan. 25, 1967, unpub.), and the contract was awarded to ECI in February, 1967. Tebell was hired by ECI from Sperry to act as production engineer. Sperry filed the complaint in this action two months later. After its filing, in the summer of 1967, Sperry officials met with the Commandant of the Coast Guard, who refused their request to take the contract away from ECI and award it to Sperry (Joint. App. A 202, 203)

ECI performed the contract during the pendency of this case in the District Court, using an antenna design

which the trial court found to have been "generated with direct reference to Sperry material" (A-12), and the possession of the information on the antenna was held to have been the essential prerequisite to ECI's ability to bid (A-11).

Summarizing, the trial court held that

> defendants appropriated Sperry's efforts and work-product which were considered novel and proprietary, and as a consequence were in a position to manufacture a slotted array antenna to Coast Guard specifications as required under the [1966] invitation for bidding, without the expenditure of research and development effort (A-11, 12),

and concluded "that ECI was unjustly enriched by virtue of having in their possession the materials and data misappropriated by Zentmeyer in reference to the slotted array antenna" (A-13) and that this and related material constituted "an unjust and immoral advantage, of $175,000.00" (A-11).

On the issue of price passing, the trial Court concluded that a conspiracy pre-existed between Tebell and Zentmeyer pursuant to which Tebell gave the radar manual to Zentmeyer, "to the end that ECI could maintain secrecy in connection with their intention to bid . . ." (A-12), and also gave to Zentmeyer the proposed bid price of Sperry. The latter finding was inferred from the ECI hiring of Tebell, the closeness of the bids, the use of the manual to prepare a bid, the short time that ECI used to prepare its bid and the prior inference of conspiracy in securing the manual. Accordingly, Sperry was held to have been unlawfully deprived of a loss of anticipated contract profits amounting to $231,012, punitive damages were assessed against petitioners in the amount of $185,000, and $225,000 attorneys fees awarded to Sperry, a total judgment of $816,012. The Court further enjoined

ECI from the manufacture of any slotted array radar antennas for a period of two years. (A-21).

The Court of Appeals, "accepting as we must the district judge's credibility determinations", affirmed the findings as a classic case for the operation of the "clearly erroneous" criterion of Rule 52(a) F.R.C.P. (B-3). That Court further held however that only a single specific wrong was inflicted, *i.e.*, underbidding Sperry. Thus the $175,000 award was duplicated in the loss of profits item. The Fourth Circuit also held that the award of attorneys fees was error under the applicable Virginia law. As so reduced, the case was remanded for reassessment of damages in accordance with the opinion.

Sperry sought a rehearing on the ruling as to the duplicated award, and petitioners asked for similar relief on punitive damages. Both motions were denied (C-4), as was a concurrent Sperry petition to this Court from the elimination of attorneys' fees (No. 71-990).

REASONS FOR GRANTING THE WRIT

1. The holdings below apply state law of unfair competition to penalize and enjoin open copying of items which are in the public domain within the meaning of the federal patent laws. Such holdings directly conflict with the decisions of this Court in *Sears, Roebuck & Co.* v. *Stiffel Co.*, 376 U.S. 225, 84 S. Ct. 784 (1964), *reh. den.*, 376 U.S. 973, 84 S. Ct. 1131 (1964), and *Compco Corp.* v. *Day-Brite Lighting, Inc.*, 376 U.S. 234, 84 S. Ct. 779 (1964), *reh. den.*, 377 U.S. 913, 84 S. Ct. 1162 (1964).

2. The holdings below awarding Sperry damages for an invasion of its "proprietary" residual rights in an antenna design and uncopyrighted manual already paid for by the Coast Guard, not only apply state law to diminish the property right of the United States in articles purchased by it, but operate to discourage future com-

petition in government procurement. This presents an important question of federal law which has not been, but should be, decided by this Court.

3. An affirmed award in excess of $400,000 for misconduct principally consisting of the copying of a design whose labor cost to Sperry on the record was under $1,000, is such an abuse of judicial discretion as to call for the exercise of the supervisory powers of this Court.

I

Six Circuit Courts of Appeal including the Court below have, since 1964, returned to state law property rules of unfair competition and trade secrets to enjoin and penalize the copying of unpatented materials in the public domain. These decisions are contrary to the holdings of this court in the *Sears* and *Compco* cases and raise a substantial conflict in national judicial policy on the application of the patent laws, which this Court should now resolve.

In applying state precedents of unfair competition in trade secrets to punish and enjoin the unauthorized copying of unpatented materials in the public domain, the ruling below is in conflict with both the language and reasoning of this Court's holdings in *Sears* and *Compco*. Nor is the ruling of the Fourth Circuit an isolated case turning solely on its own facts. As we now show, the ruling complained of follows a general regression by the Circuit Courts of Appeal to state trade secret law as an exception to the free copy rule of *Sears-Compco*, in decisions which have restored in large part the common law concepts of monopoly rights in materials which are outside the limits of the federal patent laws. These decisions give controlling effect to state criteria based on the subjective motives of the copier, rather than using this Court's objective test based on the nature of the material copied.

The Sears-Compco Rule in this Court States the Priority of the Public Interest in Copying of Unpatented Materials

As explained by this Court in 1964, the interest of the public in open competition required a deliberate policy choice to be made between the contradictory federal and state principles governing the term and extent of the reserved monopoly interest of a producer of industrial property. That choice was made in favor of limiting protection of such property to the terms of the federal patent laws as enacted by Congress under its constitutional directive.

> Just as a state cannot encroach upon the federal patent laws directly, it cannot, under some other law, such as that forbidding unfair competition, give protection of a kind that clashes with the objectives of the federal patent laws. . . . But because of the federal patent laws a State may not, when the article is unpatented and uncopyrighted, prohibit the copying of the article itself. . . . The judgment below did both and in so doing gave Stiffel the equivalent of a patent monopoly on its unpatented lamp. This was error, . . . *Sears, Roebuck & Co.* v. *Stiffel Co., supra*, 376 U.S. at 231-233.

As so stated, this rule makes the copier's motive irrelevant and confirms the conclusion reached in 1918 by Mr. Justice Brandeis in his often quoted dissent in *International News Service* v. *Associated Press*, 248 U.S. 215, 258, 39 S. Ct. 68, 79 (1918).

> Such taking and gainful use of a product of another which, for reasons of public policy, the law has refused to endow with the attributes of property, does not become unlawful because the product happens to have been taken from a rival and is used in competition with him.

And this is the rule as stated in *Compco*:

> To forbid copying would interfere with the federal policy . . . of allowing free access to copy whatever the federal patent and copyright laws leave in the public domain. Here Day-Brite's fixture has been held not to be entitled to a design or mechanical patent. Under the federal patent laws it is, therefore, in the public domain and can be copied in every detail by whoever pleases . . . regardless of the copier's motives, neither these facts nor any others can furnish a basis for imposing liability for or prohibiting the actual acts of copying and selling. *Compco*, etc., *supra* 376 U.S. at 237, 238.

This principle was reapplied in *Lear, Inc.* v. *Adkins*, 395 U.S. 653, 89 S. Ct. 1902 (1969) and *Blonder-Tongue Lab, Inc.* v. *Univ. of Illinois Found.*, 402 U.S. 313, 91 S. Ct. 1434 (1971) where this Court reversed decisions penalizing licensees who repudiated their royalty contract obligations after copying unpatented materials secured by virtue of their license.

> Surely the equities of the licensor do not weigh very heavily when they are balanced against the important public interest in permitting full and free competition in the use of ideas which are in reality a part of the public domain. . . . We think it plain that the technical requirements of contract doctrine must give way before the demands of the public interest. . . . *Lear, Inc., supra* 395 U.S. at 670.

And in *Blonder-Tongue* it was pointed out that any state-created obligation assessed against one infringer necessarily discriminated against him as opposed to all other infringers who were free to copy and compete without such an added burden, 402 U.S. at 346. *Cf. Deepsouth Packing Co., Inc.* v. *The Laitram Corp.*, —— U.S. ——, 40 L.W. 4575 (May 30, 1972).

The Sears-Compco Rule in the Circuit Courts, the Reversion to State Unfair Competition Criteria

In *Sears* and *Compco* the late Mr. Justice Harlan in his separate opinion dissented from this Court's rejection of an exception based on "specifically oriented predatory business practices." In the "palming off" found in *Compco* this Court noted that the States retained power to require labeling or other forms of preventing deceit so long as they did not burden the right to copy and sell, 376 U.S. 239. However, since that time a number of circuit courts—while broadly acknowledging *Sears-Compco* as governing—have nevertheless effectively adopted Justice Harlan's proposed criterion as the rule of decision in such cases and it is this Circuit-created exception to the open copy rule which furnishes the legal support to the decision below.*

Within a few months of *Sears*, the Ninth Circuit held that *Sears-Compco* left open to state decision the application of unfair competition rules to forbid the copying of public domain material where a "palming off" had been shown, and remanded to the trial court for a determination as to whether an "implied misrepresentation" could be found, *Cable Vision, Inc.* v. *KUTV, Inc.*, 335 F. 2d 348, 351, 352 (1964), *cert. den.* 379 U.S. 989, 85 S. Ct. 700 (1965).

The Seventh Circuit also read *Sears* as creating an exception for a "palming off" situation and made a similar remand with instructions that unless an intent to

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* Although this question of palming-off or deceit is not controlling under *Sears*, the adverse moral connotation leads us to point to the Government's knowledge of ECI's background in the cited opinion of the Comptroller General prior to the 1966 contract award:

> "Officers of ECI, having had prior experience with both the design and construction of AN/SPS-53 radar sets while working for Sperry Piedmont also have an intimate knowledge of the various configurations in the Government furnished equipment." (B-160153, p. 6)

deceive was shown, then open copying of an unpatented spray tip was allowed by *Sears; Aerosol Research Co.* v. *Scoville Mfg. Co.*, 334 F. 2d 751, 757-8 (1964).

State law unfair competition prohibitions against the copy and sale by former employees of products incorporating unpatented "trade secrets", have by now been enforced in four other Circuits including the Court below, as a limitation on the *Sears-Compco* doctrine. In *Winston Research Corp.* v. *Minn. Mining and Mfg. Co.*, 350 F. 2d 134, 138 (1965) the Ninth Circuit held

> On the other hand, restrictions upon an employee's disclosure of information which was developed as a result of the employer's initiative and investment, and which was entrusted to the employee in confidence, are necessary to the maintenance of decent standards of morality in the business community. . . . we are satisfied that the rationale of *Sears, Roebuck & Co.* v. *Stiffel Co.*, 376 U.S. 225, 84 S. Ct. 784, *supra*, precludes judicial recognition of a legally protectible interest in the secrecy of industrial information as such as distinguished from an interest in the integrity of confidential employer-employee relationships.

This remains the rule in that Circuit,

> Nor do the *Sears-Compco* rules prevent equitable relief for the misuse of trade secrets by those who are bound by a confidential relationship or by an express or implied agreement to maintain secrecy. *Servo Corp. of America* v. *General Electric Co.*, *supra*, 337 F. 2d at 724-725. *Dekar Industries, Inc.* v. *Bissett-Berman Corp.*, 434 F. 2d 1304, 1306 (1970).

The Eighth Circuit in *Hampton* v. *Blair Mfg. Co.*, 374 F. 2d 969 (1967), *cert. den.*, 389 U.S. 829, 88 S. Ct. 87 (1967), held that unpatented and commercially sold farm machinery blueprints could be openly copied under

Sears, but the copying employee could nevertheless be enjoined from competitive use of the copies for the length of time that an independent development of the same machinery would have taken.

The Second Circuit in *Painton & Co., Ltd.* v. *Bourns, Inc.*, 442 F. 2d 216 (1970), reversed a trial court decision which had dismissed a trade secret suit on the basis of the *Sears-Compco* rule, 309 F. Supp. 271 (SDNY 1970). The Circuit held the copier's breach of a licensee relationship created an exception to *Sears*.

The Fifth Circuit met the same question in *Water Service, Inc.* v. *Tesco Chemicals, Inc.*, 410 F. 2d 163 (1969). The district court on the basis of *Sears* had dismissed an unfair competition complaint against a former employee for the copying and use of plans of water purification plants in direct breach of a two-year non-competition clause. In language reminiscent of the present case the trial court found:

> The moralities are completely with the plaintiff. Whatever he had he transmitted to Glad as a trusted employee. . . . However, the right to free copy is apparently not dependent on honorable conduct. *Id.*, at 170.

The Circuit Court reversed, holding

> But *Sears* and *Compco* dealt with the right of a competitor to free copy a product on the open market by independent study. They are not applicable to a situation in which an employer hires an employee of a competitor to take advantage of the employee's expertise in reproducing a complicated system first developed by the former employer. *Sears* and *Compco* did not involve trade secrets. Three cases have held them not to have displaced the law of trade secrets. Two of the three cases flatly disregarded *Sears* and *Compco* as inapposite to any issue in a trade secret case. *Servo Corp.* v. *General Electric Co.*, 4 Cir. 1964, 337 F. 2d 716, *cert. denied*,

1966, 383 U.S. 934, 86 S. Ct. 1061, 15 L. Ed. 2d 851, *reh. den.* 1966, 383 U.S. 934, 86 S. Ct. 1333, 16 L. Ed. 366; *Schulenberg* v. *Signatrol, Inc.*, 33 Ill. 2d 379, 212 N.E. 2d 865, 868 (1965), *cert. denied*, 383 U.S. 959, 86 S. Ct. 1225, 16 L. Ed. 2d 302 (1966). *Hampton* v. *Blair Mfg. Co.*, 8 Cir. 1967, 374 F. 2d 969, applied *Sears*, not to deny trade secret status, but to limit the duration of the injunction. *Id.* at 171, 172.

The ruling of the court below, penalizing a copying of unpatented materials on the basis of Virginia trade secret law, is on all fours with the foregoing opinions in other circuits and directly conflicts with the *Sears* rationale.

Nor is there any doubt under the findings that the material copied was in the public domain within the meaning of *Sears*. The antenna design and manual of the AN/SPS-53 copied by Zentmeyer were incorporated with equipment sold by Sperry for three years to military and commercial users prior to the claimed misuse. The presumptively novel elements of the antenna were not merely unpatented but were "fully taught" in a competitor's patent granted twelve years earlier. The manual was both uncopyrighted and commercially distributed and the opinion acknowledges that copies were publicly displayed by the Coast Guard (A-13).

The continuing vitality of state trade secret law to deny the free copy rule of *Sears* creates a major conflict in national judicial policy which should be determined by this Court. To allow a trade secret extension of patent limitations based on subjective considerations of intent and relation derogates directly from the nationally applicable statutory parameters of *Sears*. As the cited cases show it has involved the federal courts in the complex and conflicting state theories of protection under a variety of local standards, *cf. Columbia Bdcstg. System*,

Inc. v. *DeCosta*, 377 F. 2d 315, 319, ftn. 7 (1st Cir. 1967), *cert. den.* 389 U.S. 1007, 88 S. Ct. 565 (1967). For example, in the present case Virginia trade secret law has been applied to penalize an engineer in his subsequent employment for reproducing and selling to the government his own original concept, a situation which other jurisdictions regard as altogether outside trade secret doctrine, *Van Prod. Co.* v. *General Welding & Fab. Co.*, 419 Pa. 248, 213 A. 2d 769 (1965) (citing *Sears*); *Wexler* v. *Greenberg*, 399 Pa. 569, 160 A. 2d 430 (1960), 74 Harv. L.R. 1473 (1961); *E. V. Prentice Dryer Co.* v. *Northwest Dryer & Mach. Co.*, 246 Ore. 78, 424 P. 2d 227 (1967).

The present resolution of this conflict by this Court would fix a national standard of the limits of protection of unpatented property and would directly and substantially affect existing restraints on competition from, and the re-employability of engineers and technical workers in American industry.*

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* Petitioners concede that the opinions below hold other information was also improperly used, but there is no sufficient description to determine whether any such items are within the *Sears* category. For instance, petitioners would agree that the proposed bidding price of Sperry would be a protectible trade secret, but here again in the absence of any direct evidence of record, the assumption of price-passing was based in large part on the finding of "conspiracy" which in turn was related to the Court's evident antipathy to the copying of the antenna design, and the use of the operations manual to keep the ECI intent to bid secret from Sperry (A-12). Reversing a similar condemnation of copying "coupled with other factors," a remand by the Seventh Circuit required that a distinction be drawn between the *Sears* material and other elements included in a lump sum judgment, *Aerosol Research, supra*, 334 F.2d 751 at 758.

II

The rulings below recognize and enforce a government contractor's claim of a "proprietary" residual right in designs previously sold without restriction to the United States. The existence of such a right has no basis in federal statute or decision and the decision sought to be reviewed therefore raises an important question of federal law which has not been but should be decided by this Court.

Under the 1963 contract the Coast Guard paid Sperry to develop and manufacture the AN/SPS-53 radar (B-4). This included designing an antenna to stated performance specifications and preparing a technical manual (Def. Exh. 146, I, (5)). Neither that contract nor the then-applicable Procurement Regulations authorized any reservation of property rights by Sperry.*

Absent contrary statutory provision, government contracts are subject to the usual interpretative rules governing private contracts, *Refining Assoc.* v. *U.S.*, 124 Ct. Cl. 115, 109 F. Supp. 259 (1953). Under such rules the purchaser of a design acquires all rights of reproduction and use, *Bleistein* v. *Donaldson Lith. Co.*, 188 U.S. 239, 23 S. Ct. 298 (1903); *Brattleboro Pub. Co.* v. *Winmill Pub. Corp.*, 369 F. 2d 565 (2d Cir. 1966); *Lin-Brook Builders Hdwr.* v. *Gertler*, 352 F. 2d 298 (9th Cir. 1965); *Vargas* v. *Esquire, Inc.*, 164 F. 2d 522 (7th Cir. 1947); *Grant* v. *Kellogg Co.*, 58 F. Supp. 48 (SDNY 1944), *aff'd* 154 F. 2d 59 (2d Cir. 1946); *Picture Music, Inc.*

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* Effective February 6, 1963, the Treasury, including the Coast Guard, came under the Federal Procurement Regulations, 41 C.F.R. Part 11-1, supplemented June 14, 1963 by Coast Guard Procurement Regulations (41 C.F.R., Subpart 11-1.1), authorizing incorporation of the Armed Services Procurement Regulations standard clause on the procurement of "data" (Now at 41 C.F.R. § 12 B-7.150-17). ASPR (32 C.F.R. 9.203) sets out the basic data clause and gives unlimited rights to the Government in technical data resulting from developmental work "specified as an element of performance" in the contract.

v. *Bourne, Inc.*, 314 F. Supp. 640 (SDNY 1970). There seems to be no question but that the Coast Guard had unlimited rights to the materials specified in the 1963 agreement, including the antenna design and operators manual.

But the extent of the property right of the Coast Guard in the material copied was not the question considered below. What was upheld was Sperry's claim of a reserved proprietary right to the same material, as a right enforceable under State law for duplicate compensation for their value and a right of such character as to bar copying by potential competitors for a government reprocurement of the equipment. Judicial acceptance of the standing of Sperry to assert such a right in the copied property is the necessary condition precedent to the award affirmed below, whether viewed as a violation of property right under tort law, or as the enforcement of an employment contract.

Despite the volume of military procurement, there does not appear to be any prior decision which recognizes the existence of such a retained right in a design contractor of military equipment. However, three analogous rulings in the design field hold that the transfer of unlimited reproduction rights to a government agency denies the existence of any retained right in the designer to complain of a copying of the design by a third party.

In *Scherr* v. *Universal Match Corp.*, 417 F. 2d 497 (2d Cir. 1969), *cert. den.*, 397 U.S. 936, 90 S. Ct. 945 (1970), two soldiers on duty orders and at government cost designed the statue "The Ultimate Weapon" and, unknown to the government, took out a copyright on it. They were held to have no standing to complain of a government-authorized reproduction of the statue on the defendant's match covers.

In *Yardley* v. *Houghton Mifflin Co., Inc.*, 108 F. 2d 28 (2d Cir. 1939), *cert. den.* 309 U.S. 686, 60 S. Ct. 891

(1940), an artist's estate, despite copyright of a mosaic designed for a city school, lacked standing to complain of a city-authorized reproduction of the mosaic in the defendant's textbooks.

And, in *Dielman* v. *White*, 102 Fed. 892 (1st Cir. 1900) the designer of the "Law" mosaic in the Library of Congress was held to lack standing to object to unauthorized reproductions of the mosaic, the court holding that the unrestricted right of reproduction in the government imported a denial of any right of objection in the plaintiff.

In the opinion of petitioners the doctrine of these cases should be equally applicable to the product of a design contract for military equipment and Sperry accordingly lacked standing to complain of and to be compensated for an unauthorized reproduction of the antenna design and manual. The issue involves a substantial open question of federal law affecting the title of the United States to contract property, which has not been but should be determined by this Court.

III

The gross disparity between the judgment awards and the record cost of the material copied establishes that the ruling below departed from the usual course of judicial proceedings.

Granting that review in this Court will seldom be allowed on an asserted abuse of discretion in the awarding of damages, petitioners nevertheless believe that the undisputed facts of the present case are such as to call for such an exercise of the supervisory powers of the Justices.

The District Court (A-11) held that

> The value to the corporate defendant of the materials and data specifically misappropriated by Zentmeyer, coupled with Tebell's actions . . . in securing for ECI a manual . . . as well as securing from

> [another] Sperry employee [dimensions] which had been changed since the time Zentmeyer and Tebell worked with Sperry, represented a monetary advantage, an unjust and immoral advantage of $175,000 . . .*

The Circuit Court held that this figure was duplicated in the calculation of the further trial court allowance to Sperry of $231,012 as loss of profits in not securing the 1966 contract (B-9, 10). An additional award of $185,000 in punitive damages was affirmed (B-12). It is uncontradicted that Sperry's actual time charges for Zentmeyer's design work on the SPS-53 antenna were $902.20 (Joint App. A 117). The record does not show the cost of writing the manual but it is difficult to see how this would have been any substantial amount since Sperry had in its possession some 21 similar manuals covering radar equipment made by competitors (Rec. on App. Vol. 4, p. 205).

Therefore, on the showing in the opinions that the principal factors entering into the award were the copying of the antenna design and manual, petitioners argue that the discrepancy between the cost to Sperry and the damages awarded by the Court is so gross as to establish *prima facie* a departure by the courts below from the usual course of judicial proceeding and constitute an additional punitive assessment. ". . . damage will be based on evidence which satisfies the mind." *Conn. Ry. & Lighting Co.* v. *Palmer*, 305 U.S. 493, 505, 59 S. Ct. 316, 324 (1939).

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* There is no figure of $175,000 in the record. A Sperry expert stated that if an inexperienced small company should construct all the equipment referred to in the papers in the two Zentmeyer cartons, then in his opinion $150,000 to $200,000 in development costs might be saved. (Joint App. A 135). But except for the antenna, it is clear on the findings no such equipment was ever made, and Zentmeyer was concededly competent in antenna design.

CONCLUSION

This case presents a conflict between the decisions of this Court on the one hand, and holdings of the Court below and other Circuits on the other, as to the existence of a local law "trade secret" exception to the free copy rule of *Sears-Compco*. The case further raises an important and undetermined federal question of the standing of a private contractor to complain of a taking of property previously sold to the government.

Petitioners accordingly pray the issuance of a writ of certiorari to review the decision of the Fourth Circuit and on such review pray this Court to reverse and remand either for reconsideration on the law by the Court of Appeals, or return to the District Court for such reconsideration, and identification of the materials copied, if any, which fall outside the ambit of this Court's holdings.

Respectfully submitted,

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APPENDIX A

IN THE
UNITED STATES DISTRICT COURT
FOR THE WESTERN DISTRICT OF VIRGINIA
CHARLOTTESVILLE DIVISION

Formerly Richmond Civil Action No. 5241
Now Charlottesville Civil Action No. ——

SPERRY RAND CORPORATION,
a Delaware corporation

v.

ELECTRONIC CONCEPTS, INCORPORATED,
a Virginia corporation,
JOHN E. ZENTMEYER, JR., and GUS K. TEBELL, JR.

MEMORANDUM

This matter, tried before the Court without a jury, is an action in which the plaintiff seeks damages and injunctive relief. Jurisdiction of the Court is based upon diversity of citizenship of the parties, 28 U. S. C. § 1332. The amount in controversy exceeds the sum or value of Ten Thousand ($10,000.00) Dollars, exclusive of interest and costs; and the Court finds diversity of citizenship exists between the plaintiff and each of the defendants.

In the interest of brevity, the plaintiff hereinafter will be referred to as "Sperry;" the corporate defendant, Electronic Concepts, Incorporated, as ECI; and the corporate defendant, Automatic Sprinkler Corporation of America, as "Automatic."

The plaintiff corporation is a Delaware corporation with its principal place of business in the State of New York and with a division of its corporation, which is engaged in design, development, manufacture and sale of

electronic equipment, including radar, for military and commercial use, being located in Charlottesville, Virginia.

Defendants Zentmeyer and Tebell are residents and citizens of the State of Virginia; corporate defendant, ECI, was a Virginia corporation organized in 1963, which was engaged in the design and manufacture of electronic equipment and up to the middle of 1966 made no radar or radar antennae, but ultimately became a competitor of Sperry in the field of military radar.

During the pendency of this suit, Automatic purchased the assets of ECI and assumed its liabilities, if any, by reason of this suit. ECI was thereafter dissolved, and its manufacturing operation, which was and is located in Charlottesville, Virginia, was designated as a division of Automatic Sprinkler Corporation of America, a corporation whose name was changed in October 1969 to A-T-O, Inc. Automatic was, by agreement, made a party defendant to this action.

The joint answers of defendants have been designated as affirmative defenses alleging, in effect, that this action is brought by plaintiff as a part of a policy to injure ECI in its trade and business. The Court finds no credible evidence in support of this allegation, which makes unnecessary any further reference to the designated affirmative defenses.

The gist of plaintiff's allegations is contained in a two count complaint in which, under Count 1, Sperry alleges that certain confidential information and materials, proprietary in character and in the nature of trade secrets, were improperly obtained and utilized by the defendants for the benefit of ECI in its competition with Sperry. More specifically, under this count Sperry contends that from October 1956 to the time of the institution of this suit it, through the expenditure of large amounts of time, effort and money, developed certain items, manufacturing processes, techniques, data, etc., relating to the de-

sign, development, manufacture and sale of certain electronic equipment, and that the defendants (the individuals being former employees now employed by the corporate defendants) wrongfully acquired certain materials and information which were the trade secrets of Sperry and disclosed same to ECI, all to the damage of Sperry and to the wrongful gain of ECI. Count 2, while in the nature of a similar allegation, specifically charges defendants with conspiring to and wrongfully obtaining a certain trade secret in the nature of secret and confidential information pertaining to the contents of a bid for a contract to manufacture certain radar equipment. Plaintiff alleges further that said bid information was used by the defendants to its damage and to their wrongful gain.

In the interest of continuity, the Court will first address itself to the alleged confidential, proprietary information and materials in the nature of a trade secret, and defendants' alleged misconduct in connection therewith, as disclosed by the evidence received in support of plaintiff's allegations as contained in Count 1.

The matters in dispute under Count 1 have to do primarily with trade secrets concerning the design and manufacture of a slotted array type antenna for use in radar.

Background

Sperry, at the time of the alleged misconduct as well as at the time of trial, maintained a division and plant in Charlottesville, Virginia, wherein each of the individual defendants was at one time or another employed. Zentmeyer, a graduate engineer, was employed by Sperry in 1959 as a junior engineer. Tebell, also a graduate engineer, worked for the plaintiff as a part-time engineering aide in 1958, and became a Sperry engineer in the early part of 1959, his primary function being in

radar production as distinguished from design. Zentmeyer's work was primarily in design. Both individuals had graduated from the same engineering school, and each ultimately left Sperry's employ for employment with the defendant, ECI.

Radar is an electronic concept which has been in use for more than thirty years. Simply stated, a transmitter generates and broadcasts a microwave pulsed beam signal, which upon contact with objects in its path reflects signals back to the transmitter, which signals are received through the same equipment and usually amplified and displayed in visual form on a cathode ray tube, which enables the operator to determine the size, distance and movement of the objects detected.

Prior to 1960, Sperry and others in the marine radar field were primarly using parabolic reflector and pillbox type antennae. These antennae were bulky and evidenced operational difficulties. An attempt was commenced to reduce the weight of these bulky antennae, which weight was more than three times the weight of Sperry's ultimately produced slotted array antennae.

Zentmeyer, at the time he was employed by Sperry, did not possess any significant experience in the design, development or manufacture of radar equipment. About the time of Zentmeyer's employment, which was in January of 1959, Sperry began research into the development of a slotted array type antenna and Zentmeyer, along with others, performed the initial work and was primarily responsible for the Sperry slotted array program up until his departure from their employ.

A slotted array antenna consists of a precision-made hollow metal bar, known as the waveguide, with slots cut along its length through which microwave electronic energy is emitted. The energy is fed into one end of the waveguide and is emitted through the slots in such a

pattern that it is focused in a main beam, or lobe. The amount of power emitted by each slot in the waveguide is controlled by its angle of tilt, which in turn is geared to the amount of power remaining in the antenna at the point at which the slot is located along the length of the waveguide. The objective of the designer is to control the power distribution along the length of the antenna in such a way as to produce the desired beam characteristics. To achieve this objective, the arrangement of the slots, including their angle, spacing, width, depth and the tolerances within which they are machined are all critical.

In the initial development, in which Zentmeyer participated, an effort was made to generate formulae and mathematical approaches to the solution of the problems facing them. Much experimentation and trial and error was carried out in an effort to produce a successful array, including the cutting and testing of numbers of slotted arrays.

The performance of the antenna developed showed great improvement over any previous Sperry Marine antenna.

During 1961 and 1962, Zentmeyer continued to direct the development of the slotted array utilizing the Taylor Distribution Formula, a formula well known to engineers. The utilization of the Taylor Formula was made in conjunction with a computer program devised by Zentmeyer as an aid to his design effort.

In determining the angle at which each slot in a proposed slotted array antenna was to be cut, Zentmeyer utilized the Taylor Distribution Formula for the purpose of pro-rating the amount of radiation that takes place from each slot, to the end that the array would meet the side lobe requirements as might be specified. The center slots in an array radiate more strongly than

the end slots, and since the power coupled out of the wave guide by the slot is a function of the angle, it was necessary for Zentmeyer, as an engineer, to select the distribution function first and then convert same to a slot angle. There are a number of distribution formulas utilized for this purpose, although generally that distribution which is ordinarily considered to be optimum in over-all is a general class of distribution known as the Taylor distributions, in which the Taylor distribution function gives one the amount of energy that he may wish radiated from each slot. It is then the engineer's function to convert the energy or power into an expression in terms of slot angles, and it is generally called the slot conductance. Conductance is essentially the measure of the relative amount of power taken from the wave guide by a particular slot. It then becomes necessary, in the design of a slotted array antenna, for an engineer to have an equation which relates conductance to slot angle. There are formulas containing unknown quantities which engineers use, as Zentmeyer did. Ascertaining the unknown quantities is generally accomplished by cutting and testing. One would, as Zentmeyer did, cut a number of test sections having different angles and in that way build up a library of conductance data.

The Court finds that in order to complete any such library it was necessary for Zentmeyer to go through much testing and experimentation, which he, in short, did, utilizing such materials as Sperry had in its library.

Under Zentmeyer's direction a successful slotted array antenna for a military radar known as AN/SPS-53 was developed.

From 1960 to 1964, Sperry was developing a series of commercial radar known as the Radar 5, the Radar 10 and the Mark III. When awarded a contract in 1963 for military radar known as the AN/SPS-53, Sperry utilized the knowledge and data accumulated in its com-

mercial radar development. Zentmeyer was assigned the responsibility of developing a slotted array antenna to conform to Coast Guard specifications which set forth the performance standards expected of the array. Zentmeyer, in his efforts to design an antenna for this purpose, utilized the work which he had previously done on slotted array antenna design and development. By the use of calculations, a computer program, the cutting and testing of sections, and the accumulation of data on the characteristics of the slots as heretofore referred to, a slotted array antenna, primarily by Zentmeyer's efforts, was ultimately produced by Sperry which not only met the required specifications but was unique and novel in its over-all performance. The manufacturing drawing which was ultimately produced in this connection was the culmination of Zentmeyer's efforts.

Zentmeyer felt his work had resulted in an array which he described as "simple, efficient and better performance than any known slotted array," and as a consequence in 1963 he filed an invention description sheet with the Sperry Patent Department. His enthusiasm for the results of his work was further described by him at that time as one that "Sperry's competitors are likely to use the idea if they learn the method of determining slot angles for proper phasing."

In the fall of 1963, Zentmeyer displayed to Dr. Saunders, a radar antenna expert, five antenna patterns which reflected his achievement of very low side lobe levels on a repeating basis.

In the development of a slotted array, the lack of a computer or computer program would make any such development a protracted and tedious chore to arrive at the necessary calculations.

The Sperry array, developed primarily by Zentmeyer while in Sperry's employ, was a valuable property that

came about only after a great investment of time, effort and money. The techniques of producing a comparable array to Sperry's were not revealed in the literature on slotted arrays, and could only be determined through the accumulation of slot conductance data based on experimentation and trial and error. Even as late as 1969, data in the literature on slotted array antennae was considered poor.

An essential element of a successful antenna is the development of a design culminating in a manufacturing drawing which permits the machining of the wave guide between the precise values specified by theory and tolerances which allow machine shop production with a minimum of difficulty. The development of tolerances on the dimensions of Sperry's ultimate array required an unusual degree of experimentation.

A tolerance is basically a range within which an actual dimension can differ from the dimension called for on a blueprint or specification and still be acceptable. The objective which the engineer has in mind is to use the loosest possible tolerance which will still do the job. The tighter the tolerances, the more expensive it is to achieve, although sometimes very tight tolerances are necessary to produce the desired engineering results. On the slotted array antenna, it is critical to stay within the prescribed tolerances. There is an electronic relationship between the tolerances and the performance of the antenna. They affect such performance characteristics as side lobe levels, which are most sensitive to the holding of tolerances. The determination of what tolerances to prescribe is a cut and try process.

The tolerances determined by Zentmeyer, as set down in the manufacturing drawing, were of great value in the hands of any competitor. The tolerances were unusually tight and difficult, and a special tool had to be developed by Sperry's machine shop to meet them.

The slotted array developed by Sperry under Zentmeyer was of particular value to Sperry because it enabled it to successfully manufacture and sell the SPS-53 radar as well as its commercial counterpart, the Mark VI.

That the drawings and prints of the slotted array antenna were considered to be of a highly confidential and proprietary nature is understandable in view of the great deal of time, effort and expenditures made to develop same. That this trade secret of Sperry was of a highly confidential nature was transmitted to all employees connected in any way with the slotted array antenna, and specifically was known to the defendants, Zentmeyer and Tebell.

At the time Zentmeyer and Tebell came into Sperry's employ each signed employment agreements providing that neither would divulge material, confidential to Sperry, to persons outside the company. Both fully understood their obligation in this regard.

Tebell was employed by Sperry as an engineer on August 25, 1958. Following the award of the first Coast Guard contract to Sperry in 1963, he, Tebell, was assigned the position of project engineer on the SPS-53 radar.

Misappropriation by the individual defendants of confidential and proprietary information.

The information developed by Sperry regarding the manufacture of the slotted array antenna was embodied in a manufacturing drawing introduced in this case as PX-38. That this drawing embodied a trade secret and was of great monetary value both to Sperry and to anyone who wished to compete with Sperry is well established by the evidence.

Referring specifically to Count 1 of the complaint and the misappropriation of the trade secret embodied in the

manufacturing process, techniques and data relating to the design, development, manufacture and sale, PX-38 heretofore referred to embodied original data and contained all of the design information necessary to manufacture a slotted array antenna. This drawing was completed prior to Zentmeyer's departure from Sperry. Zentmeyer left the employ of Sperry on March 31, 1964, to become president of ECI. When he left Sperry he knew that ECI intended to compete with Sperry. At the time he left, or immediately prior thereto, with full knowledge that the Sperry slotted array antenna manufacturing drawing was considered by Sperry to be of a confidential nature he, unbeknownst to Sperry, took the Sperry slotted array antenna manufacturing drawing and, in addition thereto, he took much data which would be of use or value to a competitor which belonged to Sperry, including antenna patterns, lab reports, copies of pages of engineering laboratory notebooks, engineering sketches, blueprint drawings, engineering estimates of hours necessary to do certain work, and an antenna and pedestal drawing, a slotted array antenna which he had removed from Sperry during the summer of 1963 and which had been kept under lock and key by Sperry and which was ultimately used by ECI for purposes of attempting to impress the Coast Guard inspectors, as well as a copy of Sperry's technical proposal to the Coast Guard for the first SPS-53 contract awarded in 1963.

Zentmeyer, while admitting he removed the data heretofore referred to, argues that he received a clearance from his immdiate supervisor for the removal of such data.

The Court finds that if, indeed, many of the articles which were introduced during the trial of this case were, in fact, in the cartons cleared by Zentmeyer's supervisor at the time Zentmeyer left Sperry's employ, that he, the supervisor, never intended to acquiesce to the removal

of certain of the data. The Court finds that the supervisor, Stobie, did not check the items in the cartons individually, nor in view of Zentmeyer's professional standing would he be expected to make such a check.

This Court finds that Zentmeyer intended at the time of his cessation of work with Sperry to utilize confidential documents to the advantage of ECI and the detriment of Sperry.

The value to ECI of the information removed by Zentmeyer in connection with the slotted array antenna was that when the Coast Guard in 1966 issued invitations for bids for the production of 99 radar sets, ECI, who at the time had no experimental slotted array and had neither cut nor tested a slotted array antenna or produced any antenna, was in a position by virtue of utilizing the property of Sperry to submit a bid in competition with Sperry. The value to the corporate defendant of the materials and data specifically misappropriated by Zentmeyer, coupled with Tebell's actions in the conspiracy which the Court finds existed between them, in securing for ECI a manual which will be hereafter referred to, as well as securing from one Burford, a Sperry employee, the slot width dimension revisions as well as tolerances which had been changed since the time Zentmeyer and Tebell worked with Sperry, represented a monetary advantage, an unjust and immoral advantage, of $175,000.00, for the Court finds that the securing of the information utilized by the defendants, if prepared without access to the confidential documents of Sperry, would have been a protracted and tedious chore, particularly so for a small company without previous experience in the field. In short, the defendants appropriated Sperry's efforts and work-product which were considered novel and proprietary, and as a consequence were in a position to manufacture a slotted array antenna to Coast Guard specifications as required under the invitation for

bidding, without the expenditure of research and development effort.

The Court finds that the corporate defendant's drawing of their suggested slotted array antenna, PX-91, was generated with direct reference to Sperry material.

The Coast Guard's invitation for bids for 90 AN/SPS-53 radars made in the summer of 1966.

During the summer of 1966, at a time when Tebell was still a Sperry employee, Zentmeyer and he met and at Zentmeyer's request Tebell turned over to Zentmeyer for his use at ECI a copy of Sperry's technical manual for the SPS-53 radar. This manual contained detailed drawings and parts listed for the Sperry radar. It contained information not generally available to the public. It was understood by Tebell to be property of Sperry which they did not wish to be turned over to a competitor as same would give a competitor an advantage over Sperry and would be helpful to anyone in preparing a bid, and specifically would be helpful to ECI for that purpose.

The Court finds that the individual defendants entered into a conspiracy in the summer of 1966 for ECI to secure certain proprietary and confidential information for use in a bid to be made by ECI in the procuring of a contract for the SPS-53 radars which the Coast Guard had invited.

The manual which Tebell turned over to Zentmeyer, the Court finds, was utilized, and intended by them to be utilized, to the end that ECI could maintain secrecy in connection with their intention to bid pursuant to the Coast Guard's invitation for bids for 90 SPS-53 radars. The manual that Tebell had turned over to ECI made it possible and was turned over for the purpose of ECI

foregoing the need for viewing a similar manual at the Coast Guard facilities, the practice being that prospective bidders, while not permitted to copy the manual, were permitted to inspect same at the Coast Guard facility, but in connection therewith were required to sign a document which registered the names of all who viewed the equipment which was kept there or the manual.

The Court finds that Sperry, who also bid on the contract, had been alert to the possibility of a small company, and in particular ECI, bidding on said contract, and except for the improper conspiratorial conduct on the part of the individual defendants, would have been forewarned that ECI was, in fact, considering the making of a bid. As a consequence thereof, Sperry was put in a position of not bidding lower than they ultimately did, which the Court finds they would have done had they known that ECI was going to bid or was in fact considering making a bid.

It was at the time of this invitation to bid in 1966 that ECI was unjustly enriched by virtue of having in their possession the materials and data misappropriated by Zentmeyer in reference to the slotted array antenna. Not only was ECI enriched as a consequence, but the use of the materials directly damaged the plaintiff, for the use of those materials coupled with the Court's finding that Tebell, pursuant to the conspiracy existing between him and Zentmeyer, conveyed to Zentmeyer information regarding Sperry's proposed bid figure, making it possible for ECI to, as they did, submit a lower bid.

While much testimony was taken concerning the manner in which ECI prepared its bid and proposal to the Coast Guard, the Court finds that ECI could not have prepared the necessary proposal to the Coast Guard between the time in which they alleged they commenced to work thereon and the time the bid was made had they

not utilized the work product of Sperry, including information concerning Sperry's bid price.

The Court rejects as unworthy of belief the testimony of the individually named defendants as to the source of various dimensions required to prepare the ECI antenna drawings as well as their respective denials concerning their securing of information as to Sperry's bid price.

On the day the bids were submitted to the Coast Guard, that is September 6, 1966, ECI submitted a bid of $889,-156, which was $6,420 lower than Sperry's bid of $895,-576. It is interesting to note that within a matter of hours prior to ECI submitting its bid its tentative bid was reduced by more than $350,000, which the Court finds was done for the purpose of underbidding a bid to be made by Sperry in an amount known to the defendant, Zentmeyer, by reason of a conspiracy existing between him and the defendant, Tebell.

The Court finds that this contract was the largest on which ECI had up until that time ever bid and, in addition, it was their first bid in connection with radar work. The preparation of ECI's bid was made over an unreasonably short period of time and what work was done on the preparation of the bid was done with the use of the Sperry manual heretofore referred to.

While the Court accepts as factual the testimony dealing with the conduct of the Executive Committee of ECI, to the end that they felt it important that ECI secure the bid, and while the Court finds no evidence to indicate that the Committee as a whole, or individual members thereof with the exception of Zentmeyer, knew of ECI's access to the confidential bid price of Sperry, the Court does not accept as factual the explanation of the preparation of the ECI bid as enunciated by the witnesses called by the defendants in connection therewith.

The Court finds that Sperry and ECI submitted the lowest bids to the Coast Guard, and had it not been for the misconduct of the defendants Sperry would have secured the contract, but by reason of the defendants' misconduct ECI was awarded the contract resulting in a substantial loss to Sperry, not only of the profits which would have been made thereon, but as a consequence of the loss of the contract Sperry was forced to discontinue its commercial Mark VI program, for it became economically unfeasible under the circumstances to continue the manufacturing of Mark VI radars for commercial use.

Shortly after the award of the contract by the Coast Guard to ECI Tebell left the employ of Sperry and commenced work with ECI.

The Court finds Zentmeyer's net worth to be in excess of $750,000, and while no specific figures were given in reference to the corporate defendant, the representations by all counsel lead the Court to the conclusion that the now corporate defendant is a company of much substance.

The Court finds that the loss to Sperry, taking into consideration the cost and expense incurred by them, as well as the loss of profits on spare parts and equipment sales which they would have received but for the defendants' misconduct, amounted to $231,012.00.

Sperry contends that in addition to the direct loss aforementioned they had projected a sale of 55 Mark VI commercial radar sets per year over a period of five years, which would have represented a direct profit of $82,500 per year, plus a profit on spare parts in the amount of $9,231 per year. The Court finds this claim, however, to be of a speculative nature and, as a consequence, is not in a position to assess any damages in connection with the alleged loss.

The Court finds the conduct of the defendants to have been calculated, deliberate and of such a nature that it

warrants the assessment of punitive damages as well as the assessment of reasonable attorneys' fees.

The Court finds that while the conduct of the individually named defendants was reprehensible, the primary person upon whom responsibility should rest in connection with punitive damages is the defendant, Zentmeyer. The Court finds that it was his conduct which commenced the chain of circumstances leading to the ultimate damage.

It has been represented, and the Court accepts as factual, that the attorneys for the plaintiff have expended approximately 10,000 man-hours in the preparation of the trial of this case. The case was exceptionally well prepared and tried by all counsel. The diligence required in the preparation of the case is perhaps best exemplified by the fact that depositions of approximately 10,000 pages were taken. The lawyers on both sides are outstandingly qualified, and as a consequence thereof the matter was bitterly contested. The Court finds, therefore, that a reasonable sum by way of attorneys' fees to be assessed against the defendants is $225,000; that punitive damages against the defendant, Zentmeyer, and the corporate defendant, should be assessed in the amount of $175,000, and against the defendant, Tebell, in the sum of $10,000.

Based upon the foregoing findings of fact, the Court's legal conclusions are as follows:

The defendant, Zentmeyer, violated his duty of loyalty, fidelity and responsibility to his employer by removing documents and material of a confidential and secret nature from the plaintiff's plant and transmitting same to the corporate defendants and used by the corporate defendants to their unjust enrichment and damage to the plaintiff;

That the named defendants engaged in unfair competition with plaintiff by engaging in the conspiracy referred to in the Court's finding of fact;

That the defendant, Tebell, violated his duty of loyalty, fidelity and responsibility to his employer by making available to the defendant, Zentmeyer, individually and acting as President of Electronic Concepts, Incorporated, certain documents and material of plaintiff of a confidential and secret nature, and by conveying plaintiff's confidential bidding information;

Each of the individually named defendants breached their respective employment agreements with the plaintiff;

The acts of the defendants were willful and deliberate and were committed with the knowledge that they were unlawful and were calculated to result in substantial harm to the plaintiff. See *Sperry Rand Corp.* v. *Rothlein*, 241 F. Supp. 549 (D. Conn. 1964);

The facts and circumstances of this case render it an appropriate one in which punitive damages should be assessed. Punitive damages have a two-fold purpose: (1) to indemnify a plaintiff for the loss sustained, and (2) to prevent similar actions on the part of the responsible party and others in the future. See *Stevens* v. *Abbott, Proctor and Paine*, 288 F. Supp. 836 (E. D. Va. 1968); see also, *Willis* v. *Miller*, 29 F. 238, 244 (4th Cir. 1886);

While the general rule is that a prevailing party in an action is not entitled to counsel fees, *Fleischmann Corp.* v. *Maier Brewing Co.*, 386 U. S. 714 (1967), and while this rule is supported by overwhelming authority, there are exceptions not the least of which encompass those extraordinary cases involving oppressive, vexatious conduct, and those cases in which the federal courts have authority as a part of their historic equity jurisdiction to award counsel fees. See *Local No. 149* v. *American Brake Shoe Co.*, 298 F. 2d 212 (4th Cir. 1962). In view of the finding by the Court of clear, cogent and convincing evidence of the oppressive and bad faith conduct of

the defendants, and the individually named defendants having so blatantly violated their duty, fidelity and loyalty to the plaintiff, justice could not be served without the award of counsel fees;

The conduct of the individual defendants is imputed to the corporate defendant, ECI. The unauthorized use of confidential information was a violation of plaintiff's rights resulting in an unjust enrichment of the corporate defendant at the expense of the plaintiff, which equity will not permit to go unnoticed and for which the defendants are liable in damages. See *Reynolds* v. *Whitin*, 167 F. 2d 78 (4th Cir. 1958); *Servo Corp. of America* v. *General Electric Co.*, 337 F. 2d 716 (4th Cir. 1964), cert. den. 383 U. S. 934, re-hear. den. 384 U. S. 914; see also, *Colgate Palmolive* v. *Carter Products, Inc.*, 230 F. 2d 855 (4th Cir. 1956);

While the data taken by Zentmeyer in connection with Sperry's slotted array antenna may have been an accumulation to some extent of information available and in use in the trade and as a consequence not patentable, novelty in the sense used in patent law is not a requirement of a trade secret. See *A. O. Smith Corp.* v. *Petroleum Iron Works Co.*, 73 F. 2d 531 (6th Cir. 1934);

The essence of a claim of the nature of this cause is the breach of confidence and breach of good faith as exhibited by the individually named defendants. The instant plaintiff is entitled to protection against such a breach of good faith and the reprehensible means utilized in the exploitation by the defendants of the plaintiff's confidential information and trade secrets. See *W. R. Grace & Co.* v. *Hargadine*, 392 F. 2d 9 (6th Cir. 1968); see also, *Reynolds* v. *Whitin*, *supra*. Under the facts of the instant case, the moralities are completely with the plaintiff corporation. The plaintiff is entitled to its exclusive trade secrets until such time as competitors duplicate same by legitimate independent research, which the

Court finds would have taken the defendants a period of two years. See *Water Services, Inc.* v. *Tesco Chemicals, Inc.*, 410 F. 2d 163 (1969);

The plaintiffs are entitled to actual damages, including the recovery of lost profits. See *Reynolds* v. *Whitin, supra; International Industries* v. *Warren Petroleum Co.*, 248 F. 2d 696 (3d Cir. 1957);

Plaintiffs are entitled to an injunction against the defendants, and each of them acting individually or in concert with others in the manufacture or sale of a slotted array type antenna in connection with any radar device, for a period of two years from the date of this memorandum. The Court will reserve unto the defendants, in its equity jurisdiction, leave to apply to the Court for a modification of any such injunction in connection herewith to the end that innocent parties with whom they may have contracted will not be harmed. See *Colgate-Palmolive* v. *Carter Products, Inc., supra; Grace* v. *Hargadine, supra.*

Conclusion

Judgment for compensatory damages which include attorneys fees will be entered in favor of the plaintiff against the defendants in the sum of $631,012, and, in addition, judgment for punitive damages against the defendants Zentmeyer and ATO, Inc., as successors to Electronic Concepts, Inc., in the sum of $175,000, and against the defendant, Tebell, in the sum of $10,000, for a total judgment of $816,012.

In addition thereto, an injunction in accord with this memorandum will be entered.

/s/ ROBERT R. MERRIGE, JR.
United States District Judge

October 15, 1970.

IN THE
UNITED STATES DISTRICT COURT
FOR THE WESTERN DISTRICT OF VIRGINIA
CHARLOTTESVILLE DIVISION

Formerly Richmond Civil Action No. 5241
Now Charlottesville Civil Action No. ——

SPERRY RAND CORPORATION,
a Delaware corporation

v.

ELECTRONIC CONCEPTS, INCORPORATED,
a Virginia corporation,
JOHN E. ZENTMEYER, JR., and GUS K. TEBELL, JR.

JUDGMENT ORDER

For the reasons stated in the memorandum of the Court this day filed, and deeming it proper so to do, it is ADJUDGED, ORDERED and DECREED that the plaintiff recover of the defendants judgment in the amount of EIGHT HUNDRED SIXTEEN THOUSAND AND TWELVE ($816,012.00) DOLLARS, consisting of compensatory damages, including attorneys' fees, in the amount of SIX HUNDRED THIRTY-ONE THOUSAND AND TWELVE ($631,012.00) DOLLARS assessed against all of the defendants, including ATO, Incorporated, successors to Electronics Concepts, Incorporated, as well as punitive damages assessed against the defendants Zentmeyer and ATO, Incorporated, successors to Electronic Concepts, Incorporated, in the sum of ONE HUNDRED SEVENTY-FIVE THOUSAND ($175,000.00) DOLLARS, and punitive damages assessed against the defendant, Tebell, in the sum of TEN THOUSAND ($10,000.00) DOLLARS. Interest at the rate of six percent (6%) per annum shall be assessed from this

day until said total judgment is paid. In addition thereto plaintiff shall recover its taxable costs.

The Court further ADJUDGES and DECREES that the defendants, John E. Zentmeyer, Jr., Gus K. Tebell, Jr., and all others acting in concert with them be, and they are hereby restrained and enjoined from the manufacture or sale of a slotted array type antenna in connection with any radar device. Said injunction in this regard shall remain in full force and effect for a period of two years from this date unless sooner modified, enlarged or vacated.

In addition thereto, the defendants, and each of them, and all acting in concert with them, be, and they are hereby, enjoined to desist and refrain from using, or revealing to others, or aiding others in the use of, or in any way imparting to others knowledge of the contents those documents, materials and data removed by the said individually named defendants from the possession of the plaintiff herein; and said defendants and all acting in concert therewith be, and they are hereby, mandatorily enjoined to return to the possession, custody and control of the plaintiff any such documents, data, material or products which may now be in their possession, or under their control.

Let the Clerk send copies of this judgment order and memorandum to all counsel of record.

/s/ ROBERT R. MERRIGE, JR.
United States District Judge

October 15, 1970.

APPENDIX B

UNITED STATES COURT OF APPEALS FOR THE FOURTH CIRCUIT

No. 71-1053

SPERRY RAND CORPORATION, a Delaware corporation,
Appellee,

versus

A-T-O, INC. (formerly "Automatic Sprinkler Corporation of America"), ELECTRONIC CONCEPTS, INC., JOHN E. ZENTMEYER, JR. and GUS K. TEBELL, JR.,
Appellants.

APPEAL FROM THE UNITED STATES DISTRICT COURT FOR THE EASTERN DISTRICT OF VIRGINIA, AT RICHMOND. ROBERT R. MERHIGE, DISTRICT JUDGE.

(Argued June 10, 1971 Decided September 7, 1971.)
Before HAYNSWORTH, Chief Judge, and WINTER and RUSSELL, Circuit Judges.

George S. Leonard (Leonard, Clammer and Flues; Lloyd T. Smith, Jr., Tremblay, Colmer and Smith, on brief) for Appellants, and John S. McGeeney (Francis J. McNamara, Jr., Ridgway M. Hall, Jr., and Cummings and Lockwood; and Lewis T. Booker, Hunton, Williams, Gay, Powell and Gibson, on brief) for Appellee.

WINTER, Circuit Judge:

Sperry Rand Corporation ("Sperry Rand"), invoking the diversity jurisdiction of the district court, sought damages and injunctive relief against Electronic Concepts, Inc. ("ECI"), John E. Zentmeyer, Jr. ("Zentmeyer"), a former employee of Sperry Rand and later president of ECI, and Gus K. Tebell ("Tebell"), also a former employee of Sperry Rand and later an employee of ECI.[1] As a first cause of action, Sperry Rand alleged a misappropriation by defendants of Sperry Rand's confidential manufacturing data, designs and drawings for a slotted array antenna and their use to compete with Sperry Rand; and as a second cause of action, it alleged a misappropriation by defendants of Sperry Rand's confidential bid pricing information in connection with a United States Coast Guard radar contract and the use of this information and other data wrongfully obtained from Sperry Rand to underbid Sperry Rand on the contract. The district judge found liability on the part of defendants under both of Sperry Rand's causes of action, and he awarded compensatory damages, punitive damages and injunctive relief. We agree with his conclusions as to liability and injunctive relief, but we find error in the calculation of the money damages. We will, therefore, vacate the judgment as to the damages awarded and remand the case for reassessment of damages in accordance with our views.

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[1] Following institution of the suit, Automatic Sprinkler Corporation of America purchased the assets of ECI and assumed its liabilities, including its liability, if any, by reason of this suit. ECI was thereafter dissolved. The name of Automatic Sprinkler Corporation of America was changed, in October, 1969, to A-T-O, Inc. By agreement of the parties, A-T-O, Inc. was made a party to this suit. Although A-T-O, Inc. will be liable for any liability on the part of ECI, in this opinion only the designation ECI will be used for the corporate defendants.

—I—

The judgment appealed from was arrived at after a protracted trial, and the district judge commendably made extensive findings of fact, including resolutions of credibility in the many areas in which the testimony was in conflict, as well as summaries of the evidence, not only to support his conclusions as to liability but also to support his conclusions as to damages and injunctive relief.[2] As the case comes to us, defendants' argument with regard to liability is exclusively factual. We have examined the voluminous record in great detail and conclude that, as to liability, this is a classic case for affirmance under the mandate of Rule 52(a) *F. R. Civ. P.* that "[f]indings of fact shall not be set aside unless clearly erroneous, and due regard shall be given to the opportunity of the trial court to judge of the credibility of the witnesses." We could add nothing to legal literature by a detailed statement of why the district judge's findings with respect to liability are not clearly erroneous and must be affirmed. It suffices to say that with respect to misappropriation of trade and proprietary secrets there was ample evidence, accepting as we must the district judge's credibility determinations, to prove the following:

Zentmeyer, a graduate engineer, was employed by Sperry Rand in 1959, and Tebell, also a graduate engineer, was engaged at about the same time. Upon being hired, each signed an agreement providing:

> I will not, either during or subsequent to the term of my employment, directly or indirectly divulge to unauthorized persons any information designated as top secret, secret, or confidential by the Company . . . and not known to the general public or recog-

[2] *Sperry Rand Corporation* v. *A-T-O, Inc.*, F. S. (E. D. Va. 1970).

nized as standard practice, whether acquired or developed by me in the course of my employment or obtained from other employees. . . .

At that time Sperry Rand and others were seeking to devise a radar antenna less bulky and more efficient than the parabolic reflector and pillbox type antennae then being manufactured and used. At the time of his employment Zentmeyer had no special expertise in the area of slotted array antennae, but he played an important role in the research leading to the development of the device. He directed much testing and experimentation and accumulated a substantial body of data. These data were used in the period 1960 to 1964 to develop commercial radar and, beginning in 1963, to design and manufacture a slotted array antenna under a Coast Guard contract which set forth the performance standards for the antenna but left to the manufacturer the task of developing a design to meet these standards. Sperry Rand was awarded the Coast Guard contract and the radar manufactured thereunder was known as the SPS-53. Tebell was assigned to the position of project engineer on this contract. Zentmeyer was so enthusiastic about fulfillment of the Coast Guard specifications and so confident that he had made new discoveries that he filed an invention description sheet with the Sperry Rand patent department. The patent department concluded, however, that because of disclosures in the prior art, the newly developed antenna array was not patentable. As found by the district judge, the Sperry Rand antenna array, developed primarily by Zentmeyer while he was in Sperry Rand's employ, was a valuable property that came about only after a great investment of time, effort and money and that the drawings and manufacturing data, techniques and processes constituted a trade secret of great monetary value. The district judge's findings were certainly not clearly erroneous in view of the evidence of

the difficulty of developing, designing and providing a workable slotted array antenna and the fact that the finished product was original, theretofore unknown in the industry, and an advance in the field. See *Servo Corp.* v. *General Electric*, 393 F. 2d 551 (4 Cir. 1968).

Zentmeyer left Sperry Rand's employ in 1964 to become president of ECI, knowing that ECI, which until then had made neither radar nor radar antennae, intended to compete with Sperry Rand in the field. Admittedly, he took with him much data, including antenna patterns, laboratory reports, copies of pages of engineering laboratory notebooks, engineering sketches, blueprint drawings, engineering estimates of hours necessary to do certain work, an antenna and pedestal drawing, a slotted array antenna, and a copy of Sperry Rand's technical proposal for its 1963 Coast Guard contract. Although Zentmeyer claimed that he had the permission of his former superior to remove this valuable data, the district judge's credibility determination that he did not is amply supported.

With regard to the misappropriation of confidential bid pricing information, the record supports the findings that in 1966, when Tebell was still a Sperry Rand employee, he turned over to Zentmeyer, for his use at ECI, a copy of Sperry Rand's technical manual for the Coast Guard SPS-53 radar. The manual contained detailed drawings and parts listed for the radar, and this information was not generally available to the public. At the time the Coast Guard was inviting bids for ninety additional SPS-53 radars, and Tebell and Zentmeyer intended that ECI would use the knowledge contained therein to bid on the Coast Guard contract. In fact, ECI did use that manual and the other data which Zentmeyer had misappropriated from Sperry Rand in preparing a bid.

In addition, Zentmeyer and Tebell conspired for Tebell to supply Zentmeyer with information in regard to the

price which Sperry Rand would bid on the Coast Guard contract so as to enable ECI to underbid Sperry Rand. Tebell furnished ECI with Sperry Rand's proposed bid price, and ECI underbid Sperry Rand by $6,420.00. ECI submitting a bid of $889,156.00, and Sperry Rand submitting a bid of $895,576.00.

Concluding that the facts as found have ample record support and that these facts inescapably lead to the legal conclusions that proprietary and secret data were misappropriated and that confidential bidding information and data were also misappropriated, all to the detriment of Sperry Rand, we turn to the injunctive and monetary relief granted by the district judge.

—II—

A.

We deal, first, with injunctive relief. The district judge enjoined Zentmeyer, Tebell and all others acting in concert with them, from the manufacture or sale of a slotted array antenna in connection with any radar device for a period of two years.[3] The district judge also enjoined the defendants and others acting in concert with them from using, revealing to others or aiding others in the use of the knowledge of, the contents of the documents, materials and data which had been misappropriated, and directed that all such documents, data, material or products in the possession of the defendants or under their control be returned to Sperry Rand.

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[3] In his formal judgment the district judge reserved the power to modify, enlarge or vacate this aspect of the judgment during the two-year period. This reservation was to implement the statement in his opinion that the defendants would be granted leave to apply to the court for a modification of the injunction "to the end that innocent parties with whom they may have contracted will not be harmed."

Except to argue that no relief should have been granted because no liability was established, defendants make no special point with regard to injunctive relief. Our view is that the district judge fashioned appropriate relief. He required the return of the misappropriated material, and he restrained the manufacture or sale of a slotted array type antenna for a period of two years. An order to return stolen property cannot be faulted. There was evidence that a small firm would require a period of four or five years to develop the misappropriated data and this evidence, together with evidence of the time consumed by Sperry Rand in developing the misappropriated data, shows that the two year restriction on the manufacture and sale of a slotted array type antenna was not unreasonable or did not constitute an abuse of discretion in fashioning equitable relief.

B.

The district judge awarded the following substantial damages:

$631,012.00—compensatory damages, including attorneys' fees—awarded against all defendants.

$175,000.00—punitive damages—awarded against Zentmeyer and ECI.

$ 10,000.00—punitive damages—awarded against Tebell.

$816,012.00—total damages awarded to Sperry Rand.

The opinion of the district court discloses that the $631,012.00 item of compensatory damages was arrived at as follows:

$175,000.00—value to ECI of misappropriated documents, materials and data, excluding bidding data and the manual used in preparing ECI's bid.

$231,012.00—loss of profit to Sperry Rand as a result of being underbid on the Coast Guard contract.

$225,000.00—attorneys' fees.

$631,012.00—total compensatory damages including attorneys' fees.

We find error in the assessment of damages.

We consider, first, the allowance of $175,000.00 as the value to ECI of the misappropriated items. There are two basic methods for assessing damages for misappropriation of trade secrets: one, the damages sustained by the victim (the traditional common law remedy), and the other, the profits earned by the wrongdoer by the use of the misappropriated material (an equitable remedy which treats the wrongdoer as trustee *ex maleficio* for the victim of the wrongdoer's gains from his wrongdoing). R. Ellis, *Trade Secrets* § 286 (1953); Restatement of the Law of Torts §§ 746 and 747 (1938); R. Callman, *The Law of Unfair Competition, Trademarks and Monopolies* § 59.3 (1965). Ordinarily a plaintiff may recover either, but not both, because to allow both would permit double recovery. Ellis, *supra*, § 287; Restatement, *supra*, § 747 (c); *Harley & Lund Corp.* v. *Murray Rubber Co.*, 31 F. 2d 932 (2 Cir. 1929), *cert. den.*, 279 U. S. 872 (1929); *Consolidated Boiler Corp.* v. *Bogue Elec. Co.*, 141 N. J. Eq. 550, 58 A. 2d 759 (1949). Since the objective in allowing damages is to compensate the plaintiff for the difference in his position before and after the misappropriation of his secret, his probable loss may be the more significant measuring rod than the misappropriator's actual gain. Callman, *supra*, § 59.3 at 497.

Plaintiff argues that the $175,000.00 was properly allowed under the "comparison of cost method" of assessing damages employed in *International Industries* v.

Warren Petroleum Corp., 248 F. 2d 696 (3 Cir. 1957), *appeal dismissed*, 358 U. S. 943 (1958). In that case defendant was a manufacturer and shipper of liquified petroleum gas who misappropriated a plan for shipment by waterways which enabled it to cut shipment costs. The court allowed plaintiff to recover the savings defendant obtained in shipping over the method it had previously used, but a close reading of the opinion discloses that the "comparison of cost method" was used to determine the wrongdoer's profits. Indeed, the court remarked at one point that "the *profits* are simply measured by the *savings*." (Emphasis supplied.) 248 F. 2d at 702. *Gordon Farm Lathe Co.* v. *Ford Motor Co.*, 133 F. 2d 487 (6 Cir. 1943), aff'd. memo by an equally divided court, 320 U. S. 714 (1943), not cited by the parties but relied on in *International Industries* was a patent infringement case where the "comparison of cost method" of assessing damages was also employed but the opinion makes even clear than *International Industries* the fact that this method was employed to ascertain the infringer's *profits*. 133 F. 2d 492, 494 and 497.

Even if we assume that ECI saved $175,000.00 in research and development costs by using the misappropriated materials and thereby increased its profits by a like amount, it follows that Sperry Rand may not, under the authorities cited, recover both its damages from loss of the Coast Guard contract and ECI's profits derived therefrom because to allow both would be to allow double recovery. And we think that damages to Sperry Rand is the more appropriate measure of recovery than ECI's profits. ECI successfully used the misappropriated data in a single transaction, and it is being required to return the misappropriated material and is being enjoined from unfair competition with Sperry Rand for two years. There is thus no need for further equitable relief when Sperry Rand can prove legal damages in a greater amount.

Double recovery for Sperry Rand cannot be justified on the theory that defendants committed two separate acts giving rise to liability on their part, i. e., misappropriation of general proprietary secrets and misappropriation of bidding data and bidding price. Under the facts of this case, both of these objects of misappropriation were used in combination to inflict a single specific wrong, i. e., underbidding Sperry Rand and depriving it of the Coast Guard contract which it would otherwise have been awarded. Thus, the item of $175,000.00 must be disallowed.

In regard to $231,012.00 awarded for loss of profit to to Sperry Rand as a result of losing the Coast Guard contract, we think the amount awarded was proper. Sperry Rand offered evidence that its profit alone (in the strict economic sense) on the contract, had it received the award, would have been $95,955.00, and that if it had gained the contract it would have also recovered fixed overhead costs of $78,592.00, and material overhead costs of $10,264.00.[4] Additionally, there was evidence that Sperry Rand could reasonably have expected a 25% follow-on spares order to supplement the basic contract and, after computing the expected revenues and estimated costs derived from the follow-on spares order that it would have realized, additional profit of $23,989.00, recovery of additional general and administrative expenses of $19,648.00 and material overhead of $2,564.00. These six items total $231,012.00.[5] Thus, we find support for allowance of this total item.

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[4] In a trade secret case the general rule is that a successful plaintiff may recover loss of profits for misappropriation of his secret, but "profit" includes certain fixed overhead costs. Restatement of Torts § 748 (1938), comment i; *American Electronics, Inc.* v. *Neptune Meter Co.*, 30 App. Div. 2d 117, 290 N. Y. S. 2d 333 (1968); *Carter Products, Inc.* v. *Colgate-Palmolive Co.*, 214 F. S. 383, 400-403 (D. Md. 1963). *Cf. Century Distilling Co.* v. *Continental Distilling Corp.*, 205 F. 2d 140, 147 (3 Cir. 1953) (patent case).

[5] Sperry Rand also claimed that had it been awarded the Coast Guard contract its sales of commercial radars over "at least" a five-

We conclude that the allowance of $225,000.00 for attorneys' fees was error. "[I]n an ordinary diversity case where the state law does not run counter to a valid federal statute or rule of court, and usually it will not, state law denying the right to attorney's fees or giving a right thereto, which reflects a substantial policy of the state, should be followed." (footnotes eliminated.) 6 Moore's *Federal Practice* ¶ 54.77[2] at 1354 (1965).[6] As we view Virginia law, it would not support the allowance of counsel fees here. The Virginia rule is that "[e]xcept in rare instances, the power of a court to require one party to contribute to the fees of counsel of another party must be confined to cases where the plaintiff, suing in behalf of himself and others of the same class, discovers or creates a fund which inures to the common benefit of all . . ." *McCormick* v. *Elsea*, 107 Va. 472, 475, 59 S. E. 411 (1907), quoted with approval in *Norris* v. *Barbour*, 188 Va. 723, 51 S. E. 2d 334, 342 (1949).

Aside from "fund" theory cases, Virginia apparently allows counsel fees only when incurred in obtaining release from false imprisonment or in defending against a malicious prosecution, and even then only if it is shown that the tort was committed wantonly or maliciously. *Kemp* v. *Miller*, 166 Va. 661, 680, 186 S. E. 99, 106 (1936) (dictum); *Bolton* v. *Vellines*, 94 Va. 393, 26 S. E. 847 (1897); *Burruss* v. *Hines*, 94 Va. 413, 26

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year period would have been greatly increased. Evidence was presented that these profits would have been $82,500.00 per year, totalling profits of $628,030.10 from this source. The district judge diallowed this item of damages as too speculative, and Sperry Rand has not appealed.

[6] On the other issues in this case, the parties have not referred us to Virginia law. Consequently, general common law has been applied. See *Kellogg Co.* v. *National Biscuit Co.*, 305 U.S. 111 at 111 n.1 (1938); *International Industries* v. *Warren Petroleum Corp.*, 248 F. 2d 696 (3 Cir. 1957), appeal dismissed, 358 U.S. 993 (1958).

S. E. 875 (1897). We think that Virginia would treat this case within the general rule denying counsel fees and not within one of the exceptions.

The award of punitive damages and the amounts of the award seem proper. The district judge found that the acts of Zentmeyer and Tebell, which inured to the benefit of ECI, and were imputed to it, were "calculated," "deliberate," and "reprehensible," that Zentmeyer and Tebell were both guilty of serious breaches of loyalty, fidelity and responsibility to Sperry Rand and that "[t]he acts of the defendants were wilful and deliberate and were committed with the knowledge that they were unlawful and were calculated to result in substantial harm to the plaintiff." On this record we cannot say that these findings are clearly erroneous. There was also evidence that Zentmeyer's net worth was in excess of $750,000.00 and that ECI was a company of undisclosed worth but of "much substance." There was no finding as to Tebell's net worth, but the award of punitive damages against him was relatively nominal. It, therefore, appears that while the total punitive damages assessed were substantial they were not excessive under all of the circumstances. We do not, therefore, find any abuse of the discretion lodged in the district judge to make the award. *Day* v. *Woodworth*, 13 How. 363, 371 (1851); *Kaufman* v. *Abramson*, 363 F. 2d 865 (4 Cir. 1966) (applying the law of Virginia.) *Cf. American Safety Table Co.* v. *Schreiber*, 415 F. 2d 373 (2 Cir. 1969).

Defendants' only attack on the award of punitive damages is grounded upon the dictum in *Coca-Cola Co.* v. *Dixi-Cola Laboratories, Inc.*, 155 F. 2d 59 (4 Cir. 1946), that a court of equity may not award punitive damages without express statutory authority. In *Coca-Cola*, we held that, in an action for an injunction restraining infringement of a trademark and an accounting for alleged profits realized from the infringement, it was proper for

the special master not to allow punitive damages where the plaintiff was unable to prove any actual loss. We then added the dictum that, in the absence of statute, an equity court is without power to assess exemplary or punitive damages and that Rule 2, *F. R. Civ. P.*, providing for a single form of action in federal courts, did not "alter this situation." 155 F. 2d at 63.

Even if we assume that this dictum has not been displaced by *Ross* v. *Bernhard*, 396 U. S. 531, 539-540 (1970), ("[u]nder the Rules there is only one action—a 'civil action'—in which all claims may be joined and all remedies are available"), the fact is that Sperry Rand's complaint alleged both legal and equitable causes of action and contained a prayer for both injunction and damages, and the legal cause of action was found meritorious. They were not an adjunct or consequence of the right to equitable relief. We, therefore, find *Coca-Cola* inapposite.

To summarize with respect to damages, we conclude that $400,000.00 of the award against all defendants should not have been granted. On remand, we will direct that compensatory damages against all defendants be reduced to $231,012.00, with punitive damages of $175,000.00 against Zentmeyer and ECI, and $10,000.00 against Tebell.

III

Finally, we find no merit in defendants' argument that the district judge abused his discretion when he denied defendants the right to amend their pleadings to assert their right to recover damages for the defense, earlier pleaded, that Sperry Rand's suit was not brought in good faith but was brought as part of a continuing policy to injure ECI. In any event, the district judge received defendants' evidence by way of defense and found the charge groundless. We agree.

Vacated and Remanded.

JUDGMENT

UNITED STATES COURT OF APPEALS
FOR THE FOURTH CIRCUIT

No. 71-1053

SPERRY RAND CORPORATION, a Delaware corporation,
Appellee,

versus

A-T-O, INC. (formerly "Automatic Sprinkler Corporation of America"), ELECTRONIC CONCEPTS, INC., JOHN E. ZENTMEYER, JR. and GUS K. TEBELL, JR.,
Appellants.

APPEAL FROM THE UNITED STATES DISTRICT COURT FOR THE EASTERN DISTRICT OF VIRGINIA.

This cause came on to be heard on the record from the United States District Court for the Eastern District of Virginia , and was argued by counsel.

On consideration whereof, It is now here ordered and adjudged by this Court that the judgment of the said District Court appealed from, in this cause, be, and the same is hereby, vacated as to the damages awarded; and the case is remanded to the United States District Court for the Eastern District of Virginia, at Richmond, for reassessment of damages in accordance with the opinion of this Court filed herein.

/s/ SAMUEL W. PHILLIPS
Clerk

FILED
Sep 7 1971
SAMUEL W. PHILLIPS
Clerk

APPENDIX C

UNITED STATES COURT OF APPEALS FOR THE FOURTH CIRCUIT

No. 71-1053

SPERRY RAND CORPORATION, a Delaware corporation,
Appellee,

versus

A-T-O, INC. (formerly "Automatic Sprinkler Corporation of America"), ELECTRONIC CONCEPTS, INC., JOHN E. ZENMEYER, JR. and GUS K. TEBELL, JR.,
Appellants.

ON PETITION FOR REHEARING

(Decided April 11, 1972)

Before HAYNSWORTH, Chief Judge, and WINTER and RUSSELL, Circuit Judges.

PER CURIAM:

Sperry Rand and ECI have both filed petitions for rehearing. We required the petitions to be answered and, after consideration of the petitions and responses, we have concluded to deny them. We do so, however, without prejudice to Sperry Rand's right to present the facts and matters contained in its petition to the district court, if it be so advised, and without prejudice to the jurisdiction of the district court to grant supplementary relief, equitable or legal, for events transpiring after the evidence in main was closed, if entitlement to such relief be proved.

Succinctly stated, Sperry Rand asserts that after the evidence was closed, ECI obtained an award of another Coast Guard contract for the construction of radar by the use of misappropriated data. It asks us to reinstate the $175,000.00 item of damages we disallowed as duplicating; and, in any event, to permit the district court to eliminate any aspects of double recovery, after evidentiary hearing, rather than for us to fix final judgment on the present record. In answer ECI asserts, *inter alia*, that the district court specifically permitted it to perform the contract to which Sperry Rand refers, and that the district court's allowance of damages which we sustained included an allowance for spares orders which has not been exceeded by the additional contract in question.

Manifestly, this dispute is for the district court. The parties are in disagreement about facts and matters which are largely dehors the record before us. We decline to reinstate the item of damages that we disallowed or to permit the district court to consider it further. But we do free the parties to litigate questions arising after the trial record was closed, if they wish, and free the district court to grant additional relief if an appropriate case is proved.

ECI's petition for rehearing asks us to reconsider our affirmance of the district court's allowance of punitive damages. Developing more fully an argument adverted to in its original brief and not previously discussed by us, ECI argues that under Virginia law, which is contended to govern, punitive damages should be allowed to punish a wrongdoer and as a deterrent to him and to others, but not as pecuniary compensation for the loss actually sustained by the plaintiff. *Giant of Virginia* v. *Pigg*, 207 Va. 679, 152 S.E.2d 271 (1967); *Wright* v. *Everett*, 197 Va. 608, 90 S.E.2d 855 (1956); *Zedd* v. *Jenkins*, 194 Va. 704, 75 S.E.2d 791 (1953); *Weather-*

ford v. *Birchett*, 158 Va. 741, 164 S.E. 535 (1932); *Hines* v. *Gravins*, 136 Va. 313, 112 S.E. 869 (1922); *Ramsey* v. *Harrison*, 119 Va. 682, 89 S.E. 977 (1916); and *Norfolk and W. R. Co.* v. *Anderson*, 90 Va. 1, 17 S.E. 757 (1893), are cited in support of the contention. It is said, so the argument runs, that by referring to *Stevens* v. *Abbott, Proctor and Paine*, 288 F.S. 836 (E.D. Va. 1968), as well as by the specific language of its opinion in the instant case, the district court made the allowance here for both punitive and deterrent purposes and to indemnify Sperry Rand for the loss it sustained —the latter an impermissible measure under the law of Virginia.

We do not question that Virginia law applies. And while ordinarily, the Virginia cases, as is the majority view elsewhere, speak of the function of punitive damages as one of punishment to the wrongdoer for his wanton and malicious conduct and to deter him and others from repeating it, some of the Virginia cases do speak of compensation for loss sustained by the person wronged as a secondary purpose of the allowance of punitive damages. See, *e.g.*, *Giant of Virginia* v. *Pigg, supra; Wright* v. *Everett, supra; Anchor Co.* v. *Adams*, 139 Va. 358 (1924); *Ramsey* v. *Harrison, supra; Peshine* v. *Shepperson*, 58 Va. (17 Gratt) 472 (1867). We, therefore, cannot say that as a matter of law it is impermissible under Virginia law to assess punitive damages at least in part to compensate the person wronged for his pecuniary loss.

In any event, we think that, notwithstanding the language employed in the district court's opinion and its citation of *Stevens*, a fair reading of its opinion inevitably leads to the conclusion that the punitive damages assessed here were intended to punish the defendants rather than to compensate Sperry Rand. Each of Sperry Rand's actual losses was carefully considered and allow-

ance therefor made. The fact that we have found certain allowances were duplicating and must be disallowed does not detract from the thoroughness with which the district court considered the problem. The blatant character of the defendants' misconduct was also considered by the district court with scrupulous care and full and complete findings made, all of which were fully supported. We are thus convinced that punitive damages were assessed solely to punish defendants and to deter them and others from repetitious or like misconduct. As we have earlier decided, the items of punitive damages were not excessive.

Motion of ECI Denied; Motion of Sperry Rand Denied Without Prejudice.

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Appellants.

APPEAL FROM THE UNITED STATES DISTRICT COURT FOR THE EASTERN DISTRICT OF VIRGINIA, AT RICHMOND.

Upon consideration of the bills of costs filed by the parties and their memoranda in support,

It is ORDERED, pursuant to 28 U.S.C.A. § 1920, and Rule 39, Federal Rules of Appellate Procedure, that each party shall bear its own costs.

/s/ Samuel W. Phillips
Clerk

FILED
Apr. 11, 1972
SAMUEL W. PHILLIPS
Clerk

A True Copy, Teste:

SAMUEL W. PHILLIPS
Clerk

By /s/ Frances S. Sewell
Deputy Clerk